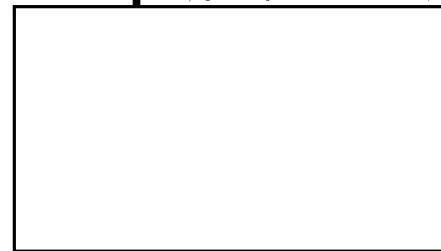


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DIA and DOS review(s) completed.

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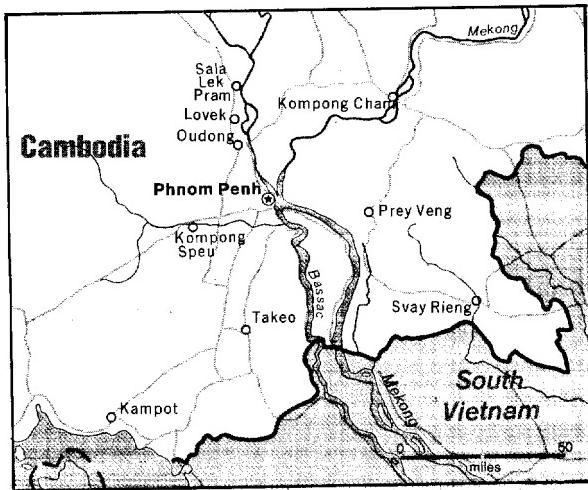
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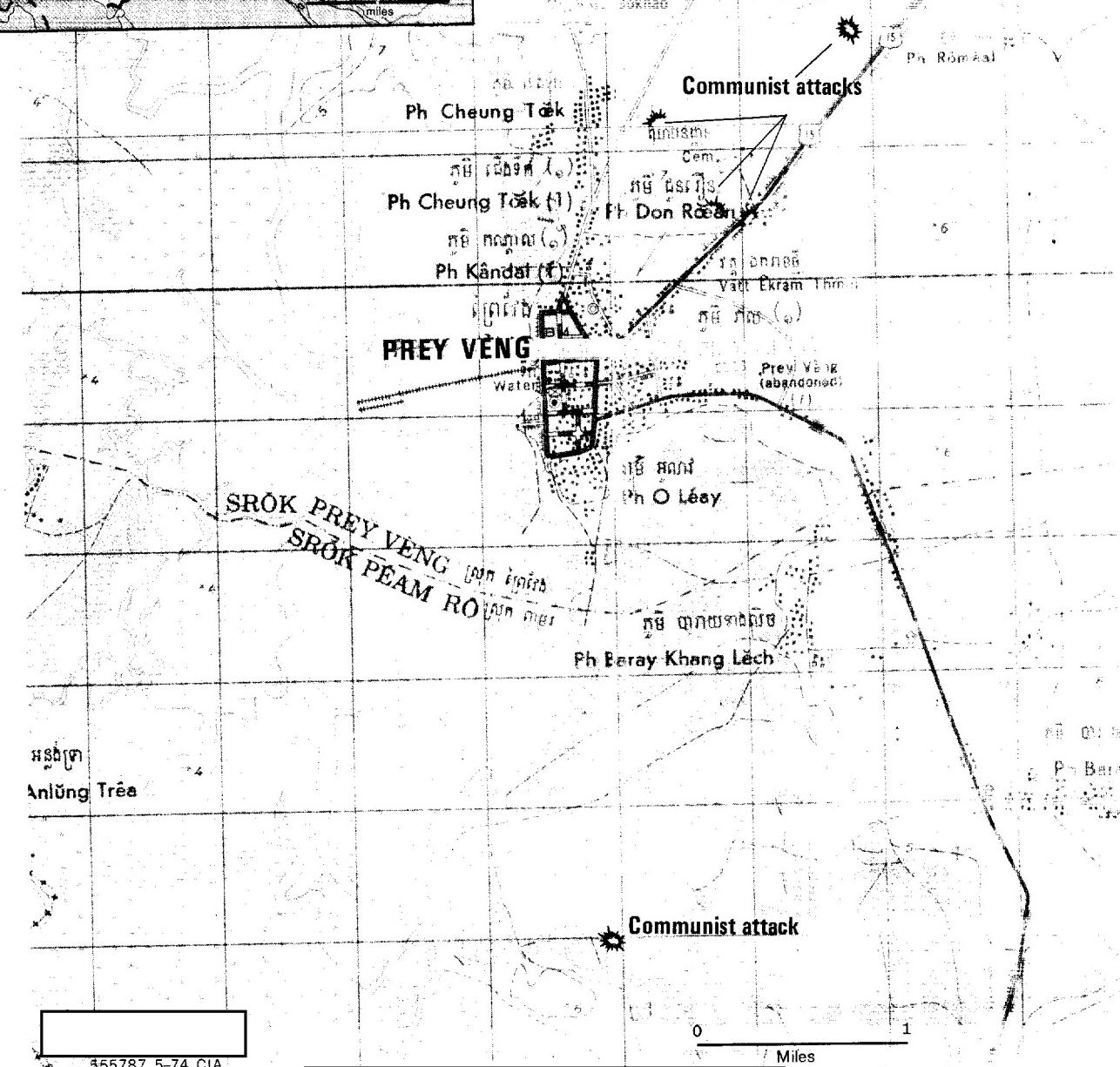
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Prey Veng Area



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CAMBODIA: The initial Khmer Communist attacks yesterday against the provincial capital of Prey Veng, east of Phnom Penh, were repulsed by Cambodian Army units.

Government defenders were anticipating the attacks and claim to have inflicted substantial casualties on the insurgents. Despite relatively heavy Communist shellings--including some 105-mm. howitzer fire--government losses were light.

Northwest of Phnom Penh, Communist units are moving against the government base at Lovek. It has been the target of intense artillery and mortar barrages for the past few days and insurgent ground units are now closing in on several sides. With the recent arrival of the 2,000-man garrison from Sala Lek Pram, government troop strength at Lovek has grown to between 4,000 and 5,000. The consolidation of government forces on this front will enable the air force to provide more effective support, but Lon Nol's decision to maintain the isolated and militarily insignificant position is questionable.

[Redacted]

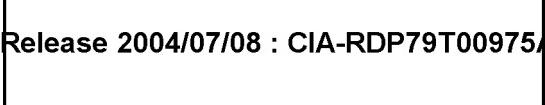
*EGYPT: President Sadat dropped his usual frontal attack on critics during a May Day speech yesterday and adopted a somewhat defensive tone as he attempted to justify his closer ties with the US.

Sadat lashed out at those who have opposed his move toward friendlier relations with the US. He defended this policy at length and with uncharacteristic heat, on the grounds of the change in Washington's attitude toward the Middle East. Characterizing as "adolescent" and "sick" those who cannot see the reasonableness of his position on the US, Sadat seemed to be addressing the entire range of his critics.

Whereas the term "adolescent" would seem meant for Libya's President Qadhafi, the word was used in a context that otherwise fits Moscow, while at other points in the speech Sadat indicated that he had Egyptians in mind as well. Sadat confined his direct criticism of the Soviets to paraphrasing relatively mild remarks he had made against Moscow in his May Day speech last year, and he did not mention Libya by name. In all, his remarks suggest a growing sensitivity to the volume and the volubility of the criticism he has been receiving.

On domestic matters, Sadat emphasized, as he has frequently of late, the dual importance of--and the equal sacrifices required by--the continued struggle with Israel and the new struggle for reconstruction. Citing the plans laid out in his "October paper" and the cabinet changes recently effected to carry out the new development tasks, Sadat asserted that his goal is to better the average Egyptian's lot, but he offered measures that do not appear likely to help immediately.

(continued)



He stated that he will use the bulk of newly invested foreign resources to rebuild Egypt's idled production facilities, rather than for commodity imports, suggesting that curbs on foreign spending will not be significantly relaxed. At the same time, however, he announced measures to increase personal incomes that will add to already serious inflationary pressures.

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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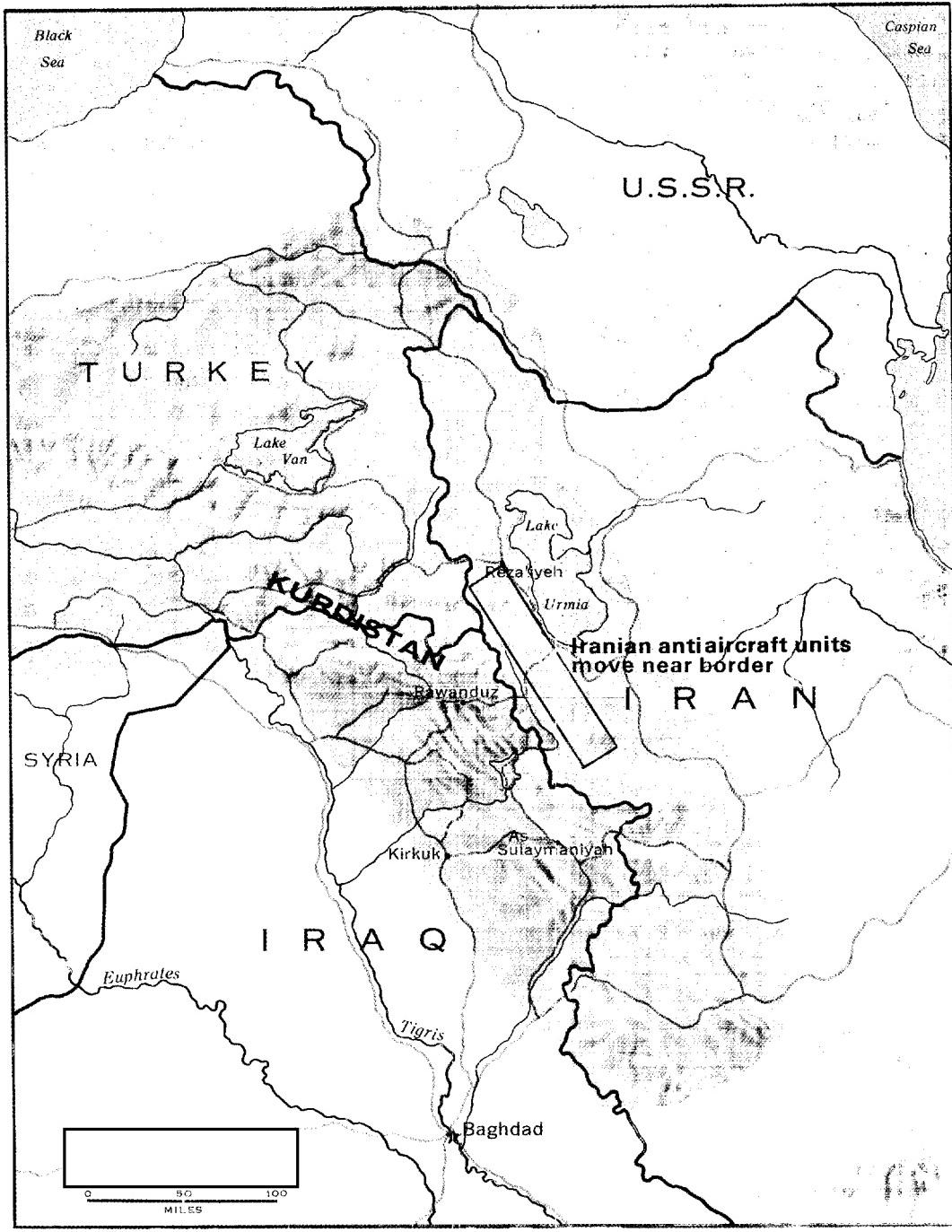
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IRAN-IRAQ: Iran has moved 16 antiaircraft units to its western border in response to alleged Iraqi violations of Iranian airspace [redacted]

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[redacted] Iran reportedly has also placed a number of fighter planes in the north on alert. The air penetrations may have been the result of faulty navigation by Iraqi pilots operating against Kurdish rebels in northeastern Iraq.

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[redacted] Baghdad is concerned about Iranian reaction to Iraqi military operations close to the border. Iraqi military forces would like to secure control of the Iraqi side in order to cut off the flow of arms and supplies from Iran to the guerrillas.

The strong Iranian response to the alleged border violations indicates that Iran will insist on strict Iraqi respect of the border region. This will make Baghdad's job of securing the border more difficult.

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NORTH VIETNAM: North Vietnamese Defense Minister
Vo Nguyen Giap, who has been seriously ill [redacted]
[redacted] made an appearance at the
May Day celebration in Hanoi on April 30. [redacted]
[redacted] reported that Giap was in good humor
despite a "loss of weight and drawn features."

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[redacted] indicates Giap went to Moscow
for medical treatment. His reappearance for May Day
does not necessarily mean that he is well. A better
reading of Giap's health may become available on May 8,
when the North Vietnamese celebrate the 20th anniversary
of the Dien Bien Phu battle. With his reputation
as the architect of that victory, Giap would be expected
to play an active and major role in its celebration.

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GUATEMALA: Kidnapings of two prominent individuals in the past five weeks and other violence, including bombings, arson attacks, and the killing on April 26 of a former police official by unknown assailants, are creating an uneasy security situation.

The Revolutionary Armed Forces, the action arm of the Communist Party, is responsible for one, and possibly both, of the kidnapings and may have had a hand in the other violence. The apparent objective of the kidnapings is to raise money. The party's policy in the past few years has been to avoid the use of violence for its own sake.

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One of the victims, a rightist politician who was a presidential candidate in 1966, was released last week after a month's captivity following payment of \$200,000. The other, a brother of a wealthy businessman and confidant of President Arana, was abducted on April 28 and his captors are demanding \$1 million in ransom.

Government leaders have been uncomfortable over the security situation since they engineered a massive vote fraud in the presidential elections two months ago. Threats of large-scale resistance never materialized, but sporadic acts of violence have increased.

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CEMA-USSR: The CEMA Executive Committee, which met in Moscow last week, gave preliminary approval for cooperation in exploiting Soviet iron ore resources. The participating CEMA countries are to provide technology, equipment, consumer, and other goods required for construction of iron ore and ferro-alloy production enterprises. In return, Soviet deliveries of refined iron and, presumably, ferroalloys to the CEMA participants will accelerate beginning in about 1980. Romania will not participate in the iron ore agreement.

The projects are probably for CEMA investment in the Kursk steel complex, in which Western businessmen are already involved. Three West German firms have signed a general agreement with the USSR to supply equipment and technology for the Kursk project valued at about a billion dollars.

Another CEMA-wide project to expand natural gas exploitation at Orenburg in the USSR and to construct a pipeline from these fields to Eastern Europe may be ready for signing in Sofia at the annual CEMA Council meeting in June.

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FOR THE RECORD

Portugal: May Day passed without trouble in Lisbon. Left-wing groups took an active part in the celebrations, joining others in an exuberant display of popular support for General Spinola. Banners draped from buildings and carried by marchers proclaimed appreciation for the new freedoms permitted by the junta. Although tens of thousands gathered in the capital, there was little outward evidence either of the armed forces or the National Republican Guard, the paramilitary force responsible for internal security. [redacted]

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Japan: Preliminary figures indicate that industrial production declined 0.7 percent in March on a seasonally adjusted basis. Production of automobiles, pulp and paper products, and chemicals all declined. Output in the first quarter was 7.9 percent higher than a year earlier and 1.7 percent below that of the preceding quarter. Despite the accumulating signs of a slump, Tokyo remains primarily concerned about inflation. Yesterday, the head of the central bank affirmed that the present credit squeeze will be continued into the third quarter. [redacted]

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India: A nationwide railroad strike is threatened for May 8 unless demands for bonuses and improved working conditions are met. A strike of even a few days' duration would seriously disrupt grain distribution to deficit areas because most inter-state transport is carried by the railroads. An extended strike would sharply curtail industrial production and cause severe economic dislocation. [redacted]

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